

OPEN MEETING ITEM

WILLIAM A. MUNDELL
CHAIRMAN

JIM IRVIN
COMMISSIONER

MARC SPITZER
COMMISSIONER



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ARIZONA CORPORATION COMMISSION

SECURITIES DIVISION
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AZ CORP COMMISSION
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MEMORANDUM

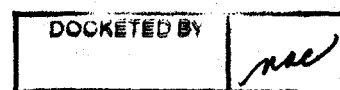
TO: Chairman William A. Mundell
Commissioner Jim Irvin
Commissioner Marc Spitzer

Arizona Corporation Commission
DOCKETED

FROM: Mark Sendrow *MS*
Director of Securities

DEC 26 2001

DATE: December 26, 2001



RE: Proposed Order to Cease and Desist and Consent To Same for Robert Dale Hylton, Hylton Enterprises, Inc., Oreo Management Co., Legend Leasing Co., Liberty Marketing Co. and Passport Wholesale Supply, Docket No. S-03394-01-0000

CC: Brian C. McNeil, Executive Secretary

Attached is a proposed Order to Cease and Desist and Consent To Same ("Order") for Robert Dale Hylton ("Hylton"), Hylton Enterprises, Inc., Oreo Management Co., Legend Leasing Co., Liberty Marketing Co. and Passport Wholesale Supply (collectively "Respondents"). The Order requires Respondents to cease and desist their activity, to pay restitution to all investors and to pay a penalty of \$25,000.

Hylton, a Glendale, Arizona resident, is an Arizona licensed insurance agent and Certified Public Accountant. He was licensed as a securities salesman in Arizona until 1998 to sell variable annuities only. The other respondents are companies or trusts that Hylton created and which received some of the commissions that Hylton earned.

Respondents sold 14 unregistered promissory notes issued by Superior Leasing of Arizona, Inc. ("Superior") for \$812,972 from 1998 through 1999. On December 9, 1999, the Commission entered a Temporary Cease and Desist Order against Superior, made final on April 14, 2000, Docket No. S-03373A-99-0000, for violations of A.R.S. §§ 44-1841, 44-1842 and 44-1991. Additionally, in 1999, Hylton sold World Cash Provider ("WCP") investments to three investors for a total of at least \$112,500. WCP ostensibly was providing cash ticket machines to the public. Hylton received commissions of \$11,250 for selling these contracts to investors. On February 8, 2000, the California Department of Corporations found that the business opportunities sold by WCP were securities and ordered WCP and others to stop selling these business opportunities in

California. On May 24, 2001, the Commission entered an order against WCP, among others, finding that their investment program was a security and permanently barring them from violating the Securities Act by selling it.

The attached Order finds that Respondents violated A.R.S. §§ 44-1841, 44-1842 and 44-1991. The Order finds that Respondents failed to provide full disclosure to investors regarding the risk of the investments, including the potential to lose principal; failed to provide investors with disclosure statements, prospectuses or financial statements including but not limited to past operations, balance sheets, statements of income, retained earnings, cash flows and uses of proceeds that would reflect the financial position of these entities and the riskiness of investing in companies with limited track records; represented to WCP investors that their equipment would be delivered within 30 or 60 days of their completed contract, when in fact many of the cash machines that were purchased were never delivered or placed in service; failed to disclose that many of the cash machines that were purchased were never delivered or placed in service; and failed to disclose any financial or background information about the issuers or their principals.

The Order requires Respondents to cease and desist their activity, to pay restitution of \$227,554.75, the amount of their commissions, plus a penalty of \$25,000. The penalty will be reduced to \$15,000 if Respondents pay full restitution within one year. Respondents admit the findings of fact for purposes of this proceeding and any other administrative proceeding before the Commission or any other Arizona agency. Hylton agrees that he will not apply for licensure as a securities salesman or investment advisor at any time in the future. He also agrees that he will not exercise any control over any entity that offers or sells securities or provides investment advisory services, within or from Arizona.

The Division recommends approval of the Order. Respondents are required to disgorge all commissions they made from the sale of the investments, in addition to payment of a \$25,000 penalty. Additionally, the admissions in the Order may be used against Hylton in other state agency proceedings.

Originator: Mark Dinell

Attorney General: Moira McCarthy

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 WILLIAM A. MUNDELL

3 Chairman

4 JIM IRVIN

5 Commissioner

6 MARC SPITZER

7 Commissioner

8 In the matter of

) DOCKET NO. S-03394-01-0000

9 ROBERT DALE HYLTON

10 19404 North 71st Avenue

11 Glendale, Arizona 85308

) DECISION NO. _____

12 HYLTON ENTERPRISES, INC.

13 P.O. Box 5955

14 Glendale, Arizona 85312

) **ORDER TO CEASE AND DESIST,
) ORDER OF RESTITUTION, ORDER
) FOR ADMINISTRATIVE PENALTIES
) AND CONSENT TO SAME**

15 OREO MANAGEMENT CO.

16 19404 North 71st Avenue

17 Glendale, Arizona 85308

) **BY: RESPONDENTS ROBERT DALE
) HYLTON, HYLTON ENTERPRISES,
) INC., OREO MANAGEMENT CO.,
) LEGEND LEASING CO., LIBERTY
) MARKETING CO. AND PASSPORT
) WHOLESALE SUPPLY**

18 LEGEND LEASING CO.

19 19404 North 71st Avenue

20 Glendale, Arizona 85308

21 LIBERTY MARKETING CO.

22 19404 North 71st Avenue

23 Glendale, Arizona 85308

24 PASSPORT WHOLESALE SUPPLY

25 19404 North 71st Avenue

26 Glendale, Arizona 85308,

 Respondents.

21 RESPONDENTS ROBERT DALE HYLTON ("HYLTON"), HYLTON ENTERPRISES,
22 INC., OREO MANAGEMENT CO., LEGEND LEASING CO., LIBERTY MARKETING CO.
23 AND PASSPORT WHOLESALE SUPPLY ("RESPONDENTS") elect to permanently waive their
24 right to a hearing and appeal under Articles 11 and 12 of the Securities Act of Arizona, A.R.S. §
25 44-1801, *et seq.* ("Securities Act") with respect to this Order To Cease And Desist, Order Of
26 Restitution, Order For Administrative Penalties And Consent To Same ("Order").

1 RESPONDENTS admit the jurisdiction of the Arizona Corporation Commission ("Commission");
2 admit, only for purposes of this proceeding and any other administrative proceeding before the
3 Commission or any other agency of the state of Arizona, the Findings of Fact and Conclusions of
4 Law contained in this Order; and consent to the entry of this Order by the Commission.

5
6 **I.**

7 **FINDINGS OF FACT**

8 1. HYLTON is licensed in Arizona to sell insurance. He is a Certified Public Accountant in
9 the state of Arizona.

10 2. HYLTON ENTERPRISES, INC. is a corporation for which HYLTON is the vice-
11 president.

12 3. OREO MANAGEMENT CO. is a trust for which HYLTON is co-trustee.

13 4. LEGEND LEASING CO. is a trust for which HYLTON is trustee.

14 5. LIBERTY MARKETING CO. is a trust for which HYLTON is co-trustee.

15 6. PASSPORT WHOLESALE SUPPLY is a sole proprietorship owned by HYLTON.

16
17 **The Promissory Notes**

18 7. RESPONDENTS offered and sold notes and/or investment contracts in Arizona from 1998
19 through 2000 for Superior Holding Group, Inc. and Superior Leasing of Arizona, Inc. (collectively
20 "Superior"). Superior was in the automobile-sale leaseback business. Superior would purchase
21 automobiles from individuals in need of cash, and then lease the cars back to the individuals. Superior
22 literature, given to some investors, stated that Superior was collateralized by at least a five-to-one ratio
23 on the value of the car to the purchase price given to the individual. The literature stated that the
24 default rate was less than one percent. Additionally, Superior stated in the literature that there was no
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1 risk to the investor even if it was unable to reclaim the vehicle; the investor would get paid regardless
2 of that happening.

3 8. RESPONDENTS sold 14 Superior promissory notes to investors for a total of at least
4 \$812,972. Superior provided HYLTON with office space rent-free, as well as paying commissions
5 to RESPONDENTS totaling \$216,304.75. HYLTON informed investors that he had known the
6 president of Superior, Lloyd Rockwell ("Rockwell"), for a number of years and that Rockwell was
7 an honorable man. HYLTON told investors the rate of return they would receive on the
8 investment. He did not inform investors that RESPONDENTS would be receiving commissions
9 from the sale of notes to them. He did not provide any financial information or background on
10 Superior or Rockwell to investors. HYLTON failed to conduct any type of due diligence into
11 Superior's business, including whether it was conducting any business. He did not examine the
12 books and records of Superior.
13

14 9. On April 14, 2000, the Commission entered a Consent Order against Superior and
15 Rockwell, Docket No. S-03373A-99-0000, for violations of A.R.S. §§ 44-1841, 44-1842 and 44-
16 1991.
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18 The Cash Machines

19 10. In or about 1999, HYLTON entered into an agreement with Partners Investment Network
20 to sell cash ticket machines ("CTMs") on behalf of World Cash Providers, L.L.C. ("WCP"). WCP put
21 together a package of equipment sales and services to sell to investors. The package was presented to
22 investors as "business opportunities," involving the sale of WCP CTMs together with World Cash
23 Providers, Inc. ("WCP, Inc.") service contracts, whereby the service company would manage the
24 equipment for the purpose of generating a profit for investors.
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1 11. Although the offering documents for the CTM investment program describe options for
2 different levels of managing the equipment, in practice, all investors selected the full-service option,
3 which offered a revenue-sharing feature and a buy-back provision. Under the full-service option,
4 investors had no responsibilities with respect to the operation of their equipment beyond signing the
5 service contracts, no financial obligations apart from the initial payment to purchase the units, no
6 continuing financial obligation in the operation of their equipment, and no liability for any expenses or
7 costs related to the operation of the equipment. Some of the services offered to investors, including
8 processing and "transaction handling," required special expertise. The transaction handling was to be
9 performed by WCP, Inc. for the CTMs. That function was key to generating a profit for investors.

10 12. Investors exercised no managerial or entrepreneurial duties in connection with these
11 investments. The profits of the investors were dependent upon the transaction handling and
12 monitoring services provided by WCP, Inc. The investment was to provide a 13 percent return.
13 HYLTON told investors that he had visited the company and that the investment would be safe.
14

15 13. HYLTON sold WCP investments to three investors for a total of at least \$112,500. As of
16 this date, no investor has received their principal back from their investment. HYLTON received
17 commissions of \$11,250 for selling these contracts to investors.

18 14. On February 8, 2000, the California Department of Corporations found that the business
19 opportunities sold by WCP and WCP, Inc. were securities and ordered WCP and WCP, Inc. to stop
20 selling these business opportunities in California. On May 24, 2001, the Commission entered an
21 Order against WCP and WCP, Inc., among others, finding that the CTM investment program was a
22 security and permanently barring them from violating the Securities Act by selling it. See Docket
23 No. S-03396A-01-0000, for violations of A.R.S. §§ 44-1841, 44-1842 and 44-1991.
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II.

CONCLUSIONS OF LAW

1. The Commission has jurisdiction over this matter pursuant to Article XV of the Arizona Constitution and the Securities Act.

2. RESPONDENTS offered or sold securities within or from Arizona, within the meaning of A.R.S. §§ 44-1801(15), 44-1801(21), and 44-1801(26).

3. RESPONDENTS violated A.R.S. § 44-1841 by offering or selling securities that were neither registered nor exempt from registration.

4. RESPONDENTS violated A.R.S. § 44-1842 by offering or selling securities while neither registered as dealers or salesmen nor exempt from registration.

5. RESPONDENTS directly or indirectly violated A.R.S. § 44-1991 by offering or selling securities within or from Arizona by (i) employing a device, scheme or artifice to defraud, (ii) making untrue statements or misleading omissions of material facts; and (iii) engaging in transactions, practices or courses of business which operate or would operate as a fraud or deceit. RESPONDENTS' conduct with respect to the offer or sale of promissory notes includes, but is not limited to, the following:

- a) Failing to inform investors that the promissory notes were not registered as securities in Arizona and were not exempt from registration;
- b) Failing to disclose the financial incentives that RESPONDENTS received for selling the promissory notes;
- c) Failing to provide full disclosure regarding the risk of the investment, including the potential to lose principal, and the riskiness of investing in companies with limited track records;
- d) Failing to provide investors with disclosure statements, prospectuses or financial statements including but not limited to past operations, balance sheets, statements of

1 income, retained earnings, cash flows and uses of proceeds that would reflect the
2 financial position of these entities; and

3 e) Failing to disclose RESPONDENTS' own lack of due diligence in investigating the
4 investment.

5 6. HYLTON directly or indirectly violated A.R.S. § 44-1991 by offering or selling
6 securities within or from Arizona by (i) employing a device, scheme or artifice to defraud, (ii)
7 making untrue statements or misleading omissions of material facts; and (iii) engaging in
8 transactions, practices or courses of business which operate or would operate as a fraud or deceit.
9 HYLTON's conduct with respect to the offer or sale of cash ticket machines includes, but is not
10 limited to, the following:

11 a) Failing to disclose specific risks involved in investments in the business
12 opportunities, including but not limited to the risk that the CTM units might never be placed in
13 service;

14 b) Representing to CTM investors that their equipment would be delivered within 30 or
15 60 days of their completed contract, when in fact many of the CTMs that were purchased were never
16 delivered or placed in service;

17 c) Failing to disclose that many of the WCP CTMs that were purchased were never
18 delivered or placed in service; and

19 d) Failing to disclose any financial or background information about the issuers or
20 their principals.

21 7. RESPONDENTS' conduct is grounds for a cease and desist order pursuant to A.R.S. §
22 44-2032.

23 8. RESPONDENTS' conduct is grounds for an order of restitution pursuant to A.R.S. §
24 44-2032.

25 9. RESPONDENTS' conduct is grounds for administrative penalties under A.R.S. § 44-
26 2036.

III.

ORDER

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3 THEREFORE, on the basis of the Findings of Fact, Conclusions of Law, and the
4 RESPONDENTS' consent to the entry of this Order, the Commission finds that the following
5 relief is appropriate, in the public interest, and necessary for the protection of investors:

6 IT IS ORDERED, pursuant to A.R.S. § 44-2032, that RESPONDENTS, their agents,
7 employees, successors and assigns, permanently cease and desist from violating the Securities Act.

8 IT IS FURTHER ORDERED, pursuant to A.R.S. § 44-2032, that RESPONDENTS shall,
9 jointly and severally, pay restitution to investors shown on the records of the Commission in the
10 amount of \$227,554.75, plus interest at the rate of 10% per annum from the date of each
11 investment until paid in full. Payment shall be made by cashier's check or money order payable to
12 the "State of Arizona" to be placed in an interest-bearing account maintained and controlled by the
13 Arizona Attorney General. The Arizona Attorney General shall disburse the funds on a pro rata
14 basis to investors. If all investors are paid in full, any excess funds shall revert to the state of
15 Arizona.

16 IT IS FURTHER ORDERED, pursuant to A.R.S. § 44-2036, that RESPONDENTS, jointly
17 and severally, shall pay an administrative penalty in the amount of \$25,000, payable to the "State
18 of Arizona," plus interest at the rate of 10% per annum from the date of this Order until paid in

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1 full. If all restitution, plus interest, is paid within one year of this Order, then the amount of
 2 penalty shall be reduced to \$15,000, plus interest at the rate of 10% per annum from the date of
 3 this Order

4 IT IS FURTHER ORDERED that this Order shall become effective immediately.

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION

6
 7
 8 CHAIRMAN

COMMISSIONER

COMMISSIONER

9 IN WITNESS WHEREOF, I, BRIAN C. McNEIL,
 10 Executive Secretary of the Arizona Corporation
 11 Commission, have hereunto set my hand and caused the
 12 official seal of the Commission to be affixed at the
 13 Capitol, in the City of Phoenix, this _____ day of
 14 _____, 2002.

15 _____
 16 BRIAN C. McNEIL
 17 Executive Secretary

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19 This document is available in alternative formats by contacting Shelly M. Hood, Executive
 20 Assistant to the Executive Secretary, voice phone number 602-542-3931, E-mail
 21 shood@cc.state.az.us.

22 (md)

CONSENT TO ENTRY OF ORDER

1
2 1. RESPONDENTS ROBERT DALE HYLTON, HYLTON ENTERPRISES, INC.,
3 OREO MANAGEMENT CO., LEGEND LEASING CO., LIBERTY MARKETING CO. and
4 PASSPORT WHOLESALE SUPPLY ("RESPONDENTS") admit the jurisdiction of the
5 Commission over the subject matter of this proceeding. RESPONDENTS acknowledge that they
6 have been fully advised of their right to a hearing to present evidence and call witnesses and
7 RESPONDENTS knowingly and voluntarily waive any and all rights to a hearing before the
8 Commission and all other rights otherwise available under Article 11 of the Securities Act and
9 Title 14 of the Arizona Administrative Code. RESPONDENTS acknowledge that this Order
10 constitutes a valid final order of the Commission.

11 2. RESPONDENTS knowingly and voluntarily waive any right they may have under
12 Article 12 of the Securities Act to judicial review by any court by way of suit, appeal, or
13 extraordinary relief resulting from the entry of this Order.

14 3. RESPONDENTS acknowledge and agree that this Order is entered into freely and
15 voluntarily and that no promise was made or coercion used to induce such entry.

16 4. RESPONDENTS acknowledge that they have been represented by counsel in this
17 matter, they have reviewed this Order with their attorney and understands all terms it contains.

18 5. RESPONDENTS admit, for purposes of this proceeding and any other administrative
19 proceeding before the Commission or any other agency of the state of Arizona, the Findings of
20 Fact and Conclusions of Law contained in this Order. These admissions shall not bind
21 RESPONDENTS in proceedings other than before the Commission or any other agency of the
22 state of Arizona.

23 6. By consenting to the entry of this Order, RESPONDENTS agree not to take any action
24 or to make, or permit to be made, any public statement denying, directly or indirectly, any Finding
25 of Fact or Conclusion of Law in this Order or creating the impression that this Order is without
26

1 factual basis. RESPONDENTS will undertake steps necessary to assure that all of their agents and
2 employees understand and comply with this agreement.

3 7. While this Order settles this administrative matter between RESPONDENTS and the
4 Commission, RESPONDENTS understands that this Order does not preclude the Commission
5 from instituting other administrative proceedings based on violations that are not addressed by this
6 Order.

7 8. RESPONDENTS understands that this Order does not preclude the Commission from
8 referring this matter to any governmental agency for administrative, civil, or criminal proceedings
9 that may be related to the matters addressed by this Order.

10 9. RESPONDENTS understands that this Order does not preclude any other agency or
11 officer of the state of Arizona or its subdivisions from instituting administrative, civil or criminal
12 proceedings that may be related to matters addressed by this Order.

13 10. RESPONDENT ROBERT DALE HYLTON agrees that he will not apply to the state of
14 Arizona for registration as a securities dealer or salesman or for licensure as an investment adviser
15 or investment adviser representative at any time in the future.

16 11. RESPONDENT ROBERT DALE HYLTON agrees that he will not exercise any
17 control over any entity that offers or sells securities or provides investment advisory services,
18 within or from Arizona.

19 12. RESPONDENTS agree that until restitution and penalties are paid in full,
20 RESPONDENTS will notify the Director of the Securities Division within 30 days of any change
21 in home address or any change in RESPONDENTS' ability to pay amounts due under this Order.

22 13. RESPONDENTS understand that default shall render them liable to the Commission
23 for its costs of collection and interest at the maximum legal rate.

24 14. RESPONDENTS agree that they will continue to cooperate with the Securities Division
25 including, but not limited to, cooperating with the state of Arizona in any related investigation or
26

any other matters arising from the activities described in this Order, including providing complete and accurate testimony at any hearing.

15. RESPONDENTS consent to the entry of this Order and agree to be fully bound by its terms and conditions. If RESPONDENTS breach any provision of this Order, the Commission may vacate this Order and restore this case to its active docket.

16. RESPONDENT ROBERT DALE HYLTON is authorized to enter into this Order on behalf of RESPONDENTS HYLTON ENTERPRISES, INC., OREO MANAGEMENT CO., LEGEND LEASING CO., LIBERTY MARKETING CO. and PASSPORT WHOLESALE SUPPLY.


ROBERT DALE HYLTON

SUBSCRIBED AND SWORN TO BEFORE me this 20th day of December, 2001.


NOTARY PUBLIC

My Commission Expires:

9/10/2004



Notary Public State of Arizona
Maricopa County
Michael A Smedinghoff
Expires September 10, 2004

HYLTON ENTERPRISES, INC.


By: ROBERT DALE HYLTON
Its Vice-President

SUBSCRIBED AND SWORN TO BEFORE me this 20th day of December, 2001.


NOTARY PUBLIC

My Commission Expires:

9/10/2004

Notary Public State of Arizona
Maricopa County
Michael A Smedinghoff
Expires September 10, 2004

OREO MANAGEMENT CO.


By: ROBERT DALE HYLTON
Its Co-Trustee

SUBSCRIBED AND SWORN TO BEFORE me this 20th day of December, 2001.



NOTARY PUBLIC

My Commission Expires:


9/10/2004

Notary Public State of Arizona
Maricopa County
Michael A Smedinghoff
Expires September 10, 2004

LEGEND LEASING CO.


By: ROBERT DALE HYLTON
Its Trustee

SUBSCRIBED AND SWORN TO BEFORE me this 20TH day of December, 2001.


NOTARY PUBLIC

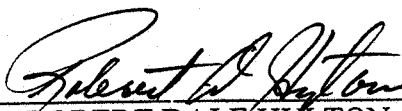
My Commission Expires:

9/10/2004



Notary Public State of Arizona
Maricopa County
Michael A Smedinghoff
Expires September 10, 2004

LIBERTY MARKETING CO.


By: ROBERT DALE HYLTON
Its Co-Trustee

SUBSCRIBED AND SWORN TO BEFORE me this 20TH day of December, 2001.


NOTARY PUBLIC

My Commission Expires:

9/10/2004



Notary Public State of Arizona
Maricopa County
Michael A Smedinghoff
Expires September 10, 2004

PASSPORT WHOLESALE SUPPLY

Robert Dale Hylton
By: ROBERT DALE HYLTON

SUBSCRIBED AND SWORN TO BEFORE me this 20th day of December, 2001.

Michael A Smedinghoff
NOTARY PUBLIC

My Commission Expires:

8/10/2004



Notary Public State of Arizona
Maricopa County
Michael A Smedinghoff
Expires September 10, 2004